

The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC No. 03594-85  
18 July 1985

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH: George Kolt ~~✓~~  
National Intelligence Officer for Europe

FROM: [redacted] 25X1  
Assistant National Intelligence Officer for Europe

SUBJECT: The Future of Kadarism: Ghoulash Communism Without Goulash

1. With Ambassador Salgo due in town next week, you might be interested in some trends we see emerging in Hungary and which will be discussed in our forthcoming Hungarian estimate -- the first since 1955. In short we believe that Hungary's reputation as the leading reform force in the Soviet camp will soon begin to dim, with significant implications that extend beyond the country's borders.

2. The main problems are economic in nature and are well covered in recent DDI products. Budapest is disarmingly frank both about its past mistakes -- financial shortsightedness in amassing debts abroad and timidity in restructuring the economy. Kadar admits the need to make substantial new reforms and to halt the decline in the standard of living. He is less forthright about how the latter goals will be met. It will be problematic given the Soviets' toughening trade demands and Hungary's already stagnating hard currency trade. Without massive investments from the West, which sustained the boom of the 1970s, import restraints and austerity are in the cards for the rest of the decade.

3. What is less understood and covered is the impact of austerity on political stability. The evidence of the early 1980s suggests:

-- Austerity has already increased social stresses (e.g., between industrial groups and farmers) and glaring income disparities to levels that concern the leadership.

[redacted]  
CL BY SIGNER  
DECL OADR  
DERV MULTIPLE

25X1  
DCT  
ENOC  
REG

SECRET

SECRET

25X1

- These strains combined with Kadar's failure to deliver promised political reforms have increased social alienation. The younger generation in particular is turning away from the materialism of the 1970s and rediscovering Magyar nationalism as a motive force. (As a result there are strains with Communist regimes in Prague and Bucharest over the Hungarian ethnic minority issue and the press in the USSR has already identified "Hungarian chauvinism" as a new problem in the Pact.)

4. Various groups are challenging the regime:

- Samizdat, at flood-tide levels, is airing national problems and political scandals.
- A new "democratic opposition" -- led by about 200 younger academicians -- is developing alternative national programs and ridiculing the feebleness of the party's gestures toward political reforms. Some are espousing pacifism and demanding the truth about events like the Red Army's "liberation" of Hungary in 1945 and the execution of Imre Nagy. (Several brief mentions [redacted] suggest that there have been some little noticed opposition successes -- like the creation of links with other opposition groups in East Europe and a large rally last fall of 100,000 environmentalists.)
- Karoly Grosz, newly selected Budapest party secretary, is reported to be tasked with taming this opposition. If so this will mean more repression, including the tried Soviet tactic of "inviting" dissidents to leave before forcing them to emigrate.

5. If these developments continue -- which is likely -- the political situation will deteriorate and Kadar will face the quandary of responding to legitimate popular aspirations or of maintaining the stability that Moscow is currently demanding most emphatically.

- Budapest seems to be clinging to its earlier hopes about Gorbachev. Some reformers claim that Moscow is ready to use Hungary as a test tube for reforms in the USSR and that Romanov's fall presages the replacement of his favorite hardliners, like Grosz, in Hungary. (We seriously doubt the latter will occur as Kadar has always found it wise to have a few neo-Stalinists around to keep his reformers under control and the Soviets happy.)
- But others are wringing their hands over the prospect of an inward-directed Kremlin demanding much more from all CEMA allies. And the suggestion in the March 21 Pravda article that Pact Allies go slow on reforms probably raised doubts in the leadership over the wisdom of serious reforms soon.

25X1

SECRET

25X1

- Our view at this point is that Gorbachev wants stability, better economic performance, and more East European inputs into the Soviet economy -- a tall order that will probably aggravate Hungary's problems.
- Finally Kadar is reported to be having health problems so succession could well be added to the country's problems at any time.

6. The import of these developments could be substantial. Should Hungary slip backward to East European norm of stagnation and popular rejection:

- There could be a regime crisis and an eventual end to Hungary's experiment.
- the credibility of gradual reform as a viable solution for the regimes in the area will also be set back.
- The US policy of differentiation will be dealt a severe blow.

25X1

**Distribution:**

1 - DCI  
 1 - DDCI  
 1 - ER  
 1 - C/NIC  
 1 - VC/NIC  
 1 - D/DDI/EURA  
 1 - C/DDO/SE  
 1 - SRP  
 1 - NIO/EUR chrono  
 1 - NIO/EUR 3.7  
 1 - A/NIO/EUR

A/NIO/EUR [redacted] 18JUL85

25X1

SECRET

25X1